



ENVIRONMENTAL PROTECTION AGENCY

[EPA-HQ-OA-2014-0129; FRL-9906-20-OP]

Comment Request; Draft Supporting Materials for the Science Advisory Board Panel on the Role of Economy-Wide Modeling in U.S. EPA Analysis of Air Regulations

AGENCY: Environmental Protection Agency (EPA).

ACTION: Notice.

SUMMARY: The Environmental Protection Agency (EPA) is evaluating the appropriate role for economy-wide modeling in informing the regulatory process. Toward that end, EPA is developing an “analytic blueprint” of materials on the technical merits and challenges of using economy-wide models to evaluate the social costs, benefits and economic impacts associated with EPA’s air regulations. In addition, EPA will be seeking advice from the Science Advisory Board (SAB) on economy-wide modeling and will present materials from the analytic blueprint to inform a discussion of charge questions to a new SAB panel with expertise in economy-wide modeling. In a forthcoming Federal Register Notice, EPA’s Science Advisory Board Staff Office will be soliciting nominations for this panel to provide advice on the use of economy-wide models to evaluate the economic effects of air regulations. In today’s Notice, EPA is soliciting public comment on both the draft charge questions and draft analytic blueprint of materials that could be presented to the SAB in order to inform how to appropriately discuss the issues with the panel.

DATES: Comments must be submitted on or before [INSERT DATE 60 DAYS AFTER PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: Submit your comments, referencing Docket ID No. **EPA-HQ-OA-2014-0129** by one of the following methods:

- www.regulations.gov: Follow the on-line instructions for submitting comments.

- Email: oei.docket@epa.gov
- Fax: (202) 566-9744
- Mail: Office of Environmental Information, Environmental Protection Agency,
Mailcode: 28221T, 1200 Pennsylvania Ave., NW, Washington, DC 20460,
- Hand Delivery:

Instructions: Direct your comments to Docket ID No. **EPA-HQ-OA-2014-0129**. EPA's policy is that all comments received will be included in the public docket without change and may be made available online at www.regulations.gov, including any personal information provided, unless the comment includes information claimed to be Confidential Business Information (CBI) or other information whose disclosure is restricted by statute. Do not submit information that you consider to be CBI or otherwise protected through www.regulations.gov. The www.regulations.gov website is an “anonymous access” system, which means EPA will not know your identity or contact information unless you provide it in the body of your comment. If you send an e-mail comment directly to EPA without going through www.regulations.gov your e-mail address will be automatically captured and included as part of the comment that is placed in the public docket and made available on the Internet. If you submit an electronic comment, EPA recommends that you include your name and other contact information in the body of your comment and with any disk or CD-ROM you submit. If EPA cannot read your comment due to technical difficulties and cannot contact you for clarification, EPA may not be able to consider your comment. Electronic files should avoid the use of special characters, any form of encryption, and be free of any defects or viruses.

Docket: All documents in the docket are listed in the www.regulations.gov index. Although listed in the index, some information is not publicly available, e.g., CBI or other information whose disclosure is restricted by statute. Certain other material, such as copyrighted material,

will be publicly available only in hard copy. Publicly available docket materials are available either electronically in www.regulations.gov or in hard copy at the OEI Docket, EPA/DC, EPA West, Room 3334, 1301 Constitution Ave., NW, Washington, DC. The Public Reading Room is open from 8:30 a.m. to 4:30 p.m., Monday through Friday, excluding legal holidays. The telephone number for the Public Reading Room is (202) 566-1744, and the telephone number for the **OEI Docket** is (202) 566-1742.

FOR FURTHER INFORMATION CONTACT: **Nathalie Simon**, National Center for Environmental Economics, Office of Policy, (1809T), Environmental Protection Agency, 1200 Pennsylvania Ave., NW, Washington, DC 20460; telephone number: **202-566-2347**; fax number: **202-566-2363**; email address: simon.nathalie@epa.gov.

SUPPLEMENTARY INFORMATION:

Environmental regulations vary widely by pollutant, sectoral and geographic scope, regulatory design, types of benefits and costs, among others. The size and complexity of the U.S. economy relative to the effects of a particular regulation also raises questions about which modeling tool is most appropriate in a given setting. Air regulations have been selected to limit the scope of this analytic exercise. For each major air regulation, the EPA considers these factors when gauging which analytic tools can be applied in a practical and analytically defensible way to estimate costs, benefits, and economic impacts within a particular regulatory context.

Economy-wide models attempt to capture the interaction and feedback effects between different sectors of the economy. A common tool to capture economy-wide effects is a computable general equilibrium (CGE) model. According the EPA's *Guidelines for Conducting Economic Analyses* (EPA 240-R-10-001) "CGE models simulate the workings of a market economy and can include representations of the distortions caused by taxes and regulations....They are used to calculate a set of price and quantity variables that will return the

simulated economy to equilibrium after the imposition of a regulation. The social cost of the regulation can then be estimated by comparing the value of variables in the pre-regulation, ‘baseline’ equilibrium with those in the post-regulation, simulated equilibrium.”

However, for nearly all benefit-cost analyses conducted by EPA in support of air regulations, the costs are estimated using engineering or detailed partial equilibrium sector models which are compared to benefits that are likewise estimated through partial equilibrium models. EPA has evaluated, and will continue to evaluate, the appropriate role for economy-wide modeling in informing the regulatory process. While the Advisory Council on Clean Air Compliance Analysis review of the Second Prospective Study of the Clean Air Act Amendments (EPA-COUNCIL-11-001) stated that inclusion of benefits in the economy-wide model that was specifically adapted for use in that study “represent[ed] a significant step forward in benefit-cost analysis,” EPA recognizes that serious technical challenges remain when attempting to evaluate the benefits and costs of potential regulatory actions using economy-wide models. The question also remains of the value added of using economy-wide models to evaluate the economic impacts (e.g., energy price and labor market impacts) of air regulations relative to other modeling approaches.

EPA is looking for early feedback from the public on the draft charge questions and draft analytic blueprint that outlines the materials EPA could supply to the SAB to inform their deliberations on the technical merits and challenges of using economy-wide models to estimate the economic effects of air regulations and potential paths forward for improvements that could address such challenges. EPA is soliciting comments and information to help it: (i) Evaluate whether the Agency has identified the most relevant technical materials in the analytic blueprint to help inform the SAB panel in its deliberations; and (ii) assess whether the Agency has identified the most relevant charge questions to the SAB regarding the technical merits and

challenges of using economy-wide models to evaluate the social costs, benefits, and economic impacts in the context of air regulations.

EPA will consider the comments received and amend the charge questions and draft blueprint as appropriate. The revised package will then be presented to the Science Advisory Board for consideration and comment.

EPA's Science Advisory Board Staff Office will issue a separate Federal Register Notice to solicit nominations for experts to serve on the SAB panel. (Information on the SAB, including the process for forming review panels, is available at <http://www.epa.gov/sab>)

Dated: January 29, 2014.

Joel Beauvais, Associate Administrator,
Office of Policy.

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